

Date: March 20, 2012

To: Thomas J. Bonfield, City Manager
Through: Wanda S. Page, Deputy City Manager
From: David Boyd, Finance Director
Chad Cowan, Treasury Manager
Subject: Hold a Public Hearing, Adopt Findings Resolution related to the Refunding Bonds, Adopt Bond Orders and Adopt Bond Resolution for the General Obligation Bonds, Series 2012

Executive Summary

The Finance Department is proposing the issuance of General Obligation Bonds in an amount not to exceed of \$77,270,000.00 to fund new projects and refinance existing debt. The issuance amount is broken down into four categories including the remaining \$28,425,000.00 General Obligation (GO) Bonds from the 2005 referendum, \$20,000,000.00 GO Bonds from the 2010 referendum, \$14,000,000.00 to refinance a portion of the City outstanding debt and \$14,845,000.00 of GO Two Thirds Bonds. Actual sizing of the Bond Sale will be determined closer to pricing based on the current schedule of expected project expenditures and interest rates at the time of sale. All the bonds will be sold on June 19, 2012 by the NC State Treasurer's Office, Local Government Commission, through a competitive sale.

On April 2, 2012, the City took initial steps towards the sale by adopting a Findings Resolution related to the Two Thirds Bonds, introducing the Bond Orders for the Two Thirds Bonds and adopting a resolution to set a public hearing on April 16, 2012. The recommended actions in this item will provide the City the legal authority to move forward with the sale of the bonds.

Recommendation

The Finance Department recommends that the City Council:

1. To hold a public hearing related to the issuance of the Two Thirds bonds;
2. To adopt a Resolution of the City Council of the City of Durham, North Carolina making certain statements of fact concerning proposed refunding bond issue;
3. To adopt a Bond Order Authorizing the Issuance of Not To Exceed \$14,000,000 General Obligation Refunding Bonds of the City of Durham, North Carolina;
4. To adopt a Bond Order Authorizing the Issuance of \$2,100,000 Street and Sidewalk Bonds of the City of Durham, North Carolina;
5. To adopt a Bond Order Authorizing the Issuance of \$9,645,000 Public Improvement Bonds of the City of Durham, North Carolina;
6. To adopt a Bond Order Authorizing the Issuance of \$3,100,000 Public Vehicle Bonds of the City of Durham, North Carolina;

7. To adopt a Resolution of the City Council of the City of Durham, North Carolina Providing for the Issuance of \$14,845,000 General Obligation Bonds, Series A, \$5,000,000 Taxable General Obligation Bonds, Series 2012B, \$43,425,000 General Obligation Bonds, Series 2012C, and \$14,000,000 General Obligation Refunding Bonds, Series 2012D of the City of Durham, North Carolina;
8. To authorize the City Manager or his designee to execute other associated legal documents as necessary to complete this transaction, and to make changes to any of the legal documents prior to execution, so long as the changes are consistent with the intent of the agenda item memo and the existing versions of the documents.

Background

The Finance Department is proposing the issuance of an amount not to exceed \$28,425,000.00 General Obligation (GO) Bonds from the 2005 referendum, amount not to exceed \$20,000,000.00 GO Bonds from the 2010 referendum, an amount not to exceed \$14,000,000.00 to refinance a portion of the City outstanding debt issued in 2005 and authority to issue an amount not to exceed \$14,845,000.00 of GO Two Thirds Bonds.

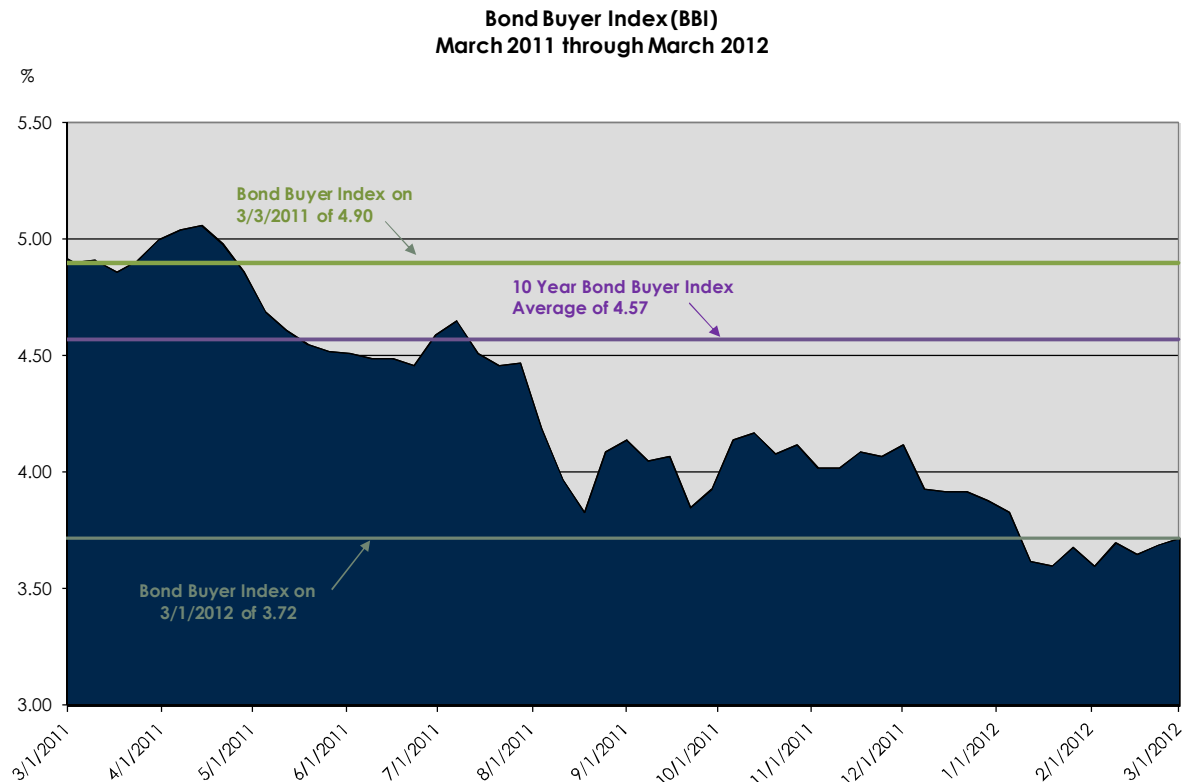
The Preliminary Official Statement will be made available to the City Council prior to the adoption of the Bond Resolution on April 16, 2012 as required by Section 16 of the Resolution.

Issues and Analysis

The City voters have authorized the issuance of over \$48,000,000.00 of GO Bonds which have yet to be issued. In addition to these projects a number of projects have been approved or will be approved in the annual CIP process (currently in progress) and to address current fleet acquisition needs. Due to the timing of these financing needs and, in the larger context of the current interest rate environment, staff will be recommending the issuance of approximately \$58,370,000.00 of tax-exempt new money bonds, \$5,000,000.00 of taxable new money bonds and issuance of up to \$14,000,000.00 of refunding bonds. The taxable bonds will be sold to conform with the federal tax code pertaining to private use of projects being financed by the bonds.

The combined financing will provide the lowest cost of borrowing for the City's capital financing needs and will reduce transaction costs by combining three separate issues into one sale.

Current Interest Rates Over the past year, interest rates in the municipal bond market (and the broader bond market) have dropped to historically low levels. The following chart tracks the Bond Buyer Index (which estimates the approximate rates in the municipal market) over the past year.



As is clearly illustrated, the current rate of 3.72% is well below the 10-year average rate of 4.57% and over 1.00% below the rate one year ago.

Timing Considerations

Under the Local Government Bond Act, the “Two Thirds rule” authorizes local governments, under certain circumstances, to issue general obligation in an amount equal to two thirds of the amount by which the outstanding indebtedness of the City was reduced in the preceding year. In FY 2012, the City will reduce its General Obligation indebtedness by \$22,270,000.00 which provides the City approximately \$14,845,000.00 of Two Thirds bond capacity.

The City has pinpointed \$9,500,000.00 of anticipated projects in its annual CIP process that will require financing to complete. Additionally, the City annually finances a portion of its fleet acquisition plan. Staff intends to include the fiscal year 2013 Fleet Financing of approximately \$3,000,000.00 as a portion of the Two Thirds bonds. The fleet portion of the bonds will be structured to mature over five years to match the useful life of the projects financed. The additional \$2,345,000.00 of Two Thirds capacity will be used to pay costs of issuance for the bonds and accommodate the potential addition of projects to the CIP. If no changes occur to the CIP or fleet financing plans, Finance staff anticipates the issuance of less than \$13,000,000.00 of Two Thirds bonds.

Refinancing

In addition to the new money projects previously outlined, the City is in a position to refund certain maturities of two series of general obligation bonds and realize positive economic savings. The Finance Department is currently pursuing refunding callable portions of the City’s outstanding General Obligation Series 2005A and 2005C (the “Refunded Bonds”) in

the amount of approximately \$12,450,000.00, which represents all of the bonds maturing after the call date of the bonds. Based on current market rates, the refunding will generate approximately \$622,000.00 in net present value savings (NPV) or 5.00% of the Refunded Bonds. The City will continue to refine the refunding structure (i.e., identifying the best refunding candidates) up to the time of pricing.

Timing of Bond Sale

The sale date for the bond issue is planned for June 19, 2012. The LGC will sell the bonds through competitive sale.

Other Items

The Finance Department has filed an application with the LGC to sell the bonds through competitive sale, and has retained Parker, Poe, Adams & Bernstein L.L.P. and The Banks Law Firm as Co-Bond Counsel. The City's Financial Advisor, Stephens, Inc has also been retained for the transaction.

Copies of the official statement for this issue will be available for review after June 12, 2012 in the City Clerk's Office.

Alternatives

The City could choose not to issue the remaining 2005 GO Bonds, the 2010 GO Bonds or the Two Thirds Bonds. This alternative is not recommended because the City has already incurred, or plans to incur within the next 18 months, expenses for the projects related to the 2005 GO Bonds and the 2010 GO Bonds and needs to be reimbursed for the expenditures.

The Two Thirds bonds provide the lowest cost of financing for projects in the current CIP. The City could choose to finance these projects using a different financing structure at increased interest rates and with higher costs of issuance.

Financial Impact

The debt service related to the entire plan of finance will be paid from property tax revenue excluding a portion of the 2005 Bonds that fund Department of Water Management projects. All of the debt service related to this financing has been anticipated in the budget projections currently being discussed by Council.

Estimated Debt Service on the 2005, 2010 and Two Thirds Bonds

Fiscal Year	2005/2010 GO Bonds (Debt Fund)	2005 Bonds (Water and Sewer)	CIP Financing (2/3rds)	Fleet Financing (2/3rds)	Total Financing Cost
2013	\$ 657,549	\$ 122,043	\$ 155,400	\$ 34,500	\$ 969,492
2014	3,144,817	583,685	726,600	638,250	5,093,352
2015	3,128,966	580,744	718,200	626,750	5,054,660
2016	3,104,540	576,210	709,800	615,250	5,005,800
2017	3,063,527	568,598	699,300	600,875	4,932,300
2018	3,008,239	558,336	686,700	583,625	4,836,900
2019	2,948,796	547,304	674,100	-	4,170,200
2020	2,893,635	537,065	661,500	-	4,092,200
2021	2,825,146	524,354	646,800	-	3,996,300
2022	2,751,766	510,734	630,000	-	3,892,500
2023	2,678,385	497,115	613,200	-	3,788,700
2024	2,605,005	483,495	596,400	-	3,684,900
2025	2,531,625	469,875	579,600	-	3,581,100
2026	2,458,244	456,256	562,800	-	3,477,300
2027	2,384,864	442,636	546,000	-	3,373,500
2028	2,311,483	429,017	529,200	-	3,269,700
2029	2,238,103	415,397	512,400	-	3,165,900
2030	2,155,550	400,075	493,500	-	3,049,125
2031	2,063,824	383,051	472,500	-	2,919,375
2032	1,972,099	366,026	451,500	-	2,789,625
2033	1,880,373	349,002	430,500	-	2,659,875
Total:	\$ 52,806,537	\$ 9,801,017	\$ 12,096,000	\$ 3,099,250	\$ 77,802,804

Estimated Savings on the Refunded Bonds

Fiscal Year	Existing Debt Service	Projected New Debt Service	Savings	PV Savings
2013	\$ 505,625	\$ 457,950	\$ 47,675	\$ 47,044
2014	505,625	457,950	47,675	46,346
2015	505,625	457,950	47,675	45,659
2016	1,555,625	1,502,950	52,675	49,699
2017	1,513,625	1,461,600	52,025	48,358
2018	1,471,625	1,420,550	51,075	46,770
2019	1,629,625	1,579,800	49,825	44,949
2020	1,579,625	1,531,200	48,425	43,038
2021	1,529,625	1,482,600	47,025	41,174
2022	1,479,625	1,429,000	50,625	43,668
2023	1,429,625	1,380,600	49,025	41,661
2024	1,378,063	1,327,200	50,863	42,581
2025	1,326,500	1,279,000	47,500	39,176
2026	573,375	520,800	52,575	42,719
Total:	\$ 16,983,813	\$ 16,289,150	\$ 694,663	\$ 622,843

SDBE Summary

There are no SDBE issues with regard to this item.

Attachments

Finding of Fact Resolution and Refunding Bond Order (3 pages)

Two Thirds Bond Orders (3 pages)

Bond Resolution (25 pages)

Escrow Deposit Agreement (16 pages)

Preliminary Official Statement (TBD)